

MILLINGTON AIRPORT AUTHORITY

FINANCIAL STATEMENTS

June 30, 2017



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MILLINGTON AIRPORT AUTHORITY
MANAGEMENT AND GOVERNMENT OFFICIALS

June 30, 2017

Millington Airport Authority Management Staff

Roy Remington, Executive Director
Linda Leavitt, Assistant Airport Manager
Bethany Huffman, CPA, External Accountant

Millington Airport Authority Board of Directors

Jim Brown
Tanya Bowley
Jason Dupree
Bob Wilson
Brett Morgan
Cliff Green
Douglas Scott
Faustino De Los Santos
Thomas McGhee
John Perales

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Millington Airport Authority
Millington, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of the Millington Airport Authority (the "Authority") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2017, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 5-9) be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The listing of management and government officials (page 1) is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by the State of Tennessee Department of Audit's *Audit Manual*, and is also not a required part of the financial statements.

The schedule of expenditures of federal and state awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal and state awards is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The listing of management and government officials has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2017, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Watkins Milnerall, PLLC". The script is cursive and fluid.

Memphis, Tennessee
October 17, 2017

MILLINGTON AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2017

Management's Discussion and Analysis

This section of the Millington Airport Authority (the "Authority") annual financial report presents our discussion and analysis of the Authority's financial performance during the fiscal year ended June 30, 2017. This section should be read in conjunction with the financial statements and accompanying notes, which follow this section.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's financial statements. The financial report includes financial statements, notes to financial statements, and required and other supplementary information.

The statements of net position present all of the Authority's assets and liabilities, with the difference being reported as net position. Over time, increases and decreases in net position typically give some indication of whether the financial position of the Authority is improving or deteriorating. However, overall evaluation of the financial health of the Authority should include non-financial factors such as the physical condition of the airport. The majority of the Authority's net position is invested in capital assets (land, buildings, improvements, and equipment). These assets are used to provide airport services to the general public and commercial users and are not available for future spending. The unrestricted net positions give a good indication of the net earnings that have been accumulated since inception. These assets are available for airport operations and future capital expenditures.

The statements of revenues and expenses and changes in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. The statement of revenues, expenses, and changes in net position presents information on activities as well as other cash sources and cash payments such as investment income and capital additions.

The statements of cash flows reconcile the change in financial position to resources received and resources used. It also shows how cash flows were spent during the year.

MILLINGTON AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2017

Financial Highlights

Authority's Net Position as of June 30

	<u>2017</u>	<u>2016</u>
Current assets	\$ 1,281,843	\$ 1,079,214
Capital assets, net	<u>18,471,841</u>	<u>18,890,169</u>
Total assets	<u>19,753,684</u>	<u>19,969,383</u>
Current liabilities	<u>67,950</u>	<u>74,445</u>
Total liabilities	<u>67,950</u>	<u>74,445</u>
Investment in capital assets	18,471,841	18,890,169
Unrestricted net position	<u>1,213,893</u>	<u>1,004,769</u>
Total net position	<u><u>\$ 19,685,734</u></u>	<u><u>\$ 19,894,938</u></u>

Authority's Changes in Net Position for the Year Ended June 30

	<u>2017</u>	<u>2016</u>
Operating revenues	\$ 1,423,884	\$ 1,404,491
Operating expenses	<u>1,908,769</u>	<u>1,895,873</u>
Operating income (loss)	(484,885)	(491,382)
Non-operating revenue	<u>275,681</u>	<u>274,436</u>
Change in net position	<u><u>\$ (209,204)</u></u>	<u><u>\$ (216,946)</u></u>

MILLINGTON AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2017

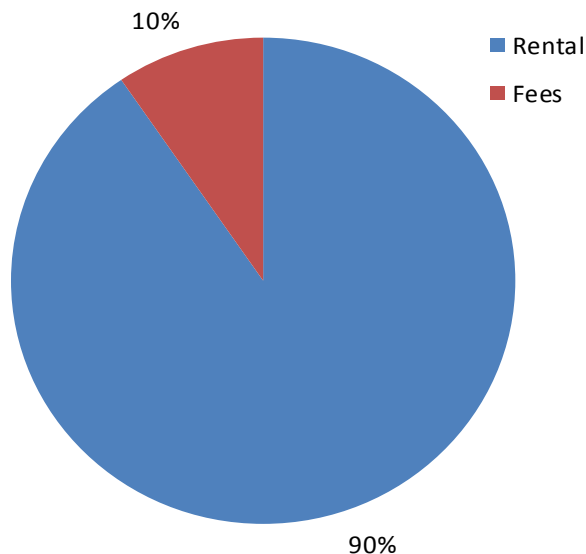
Operating and Non-Operating Revenues

The Authority's total operating revenue was \$1,423,884 for the year ended June 30, 2017.

The primary source of revenue for the Authority was from the Federal Express Corporation contract, totaling \$820,080. Other key revenue components included aircraft hangar rental revenue of \$182,106; facilities rental revenue from the Part 145 repair station, flight school, and other tenants of \$279,831; and fuel flowage fees of \$64,177. Improvement in rental income is primarily attributable to a full-year lease of Hangar N-7 and a 3.5% increase to T-Hangar and Corporate Hangar rental rates. Operating revenue also benefited from a 25% increase in fuel sales over last fiscal year attributable to increased price competition between the two Fixed Based Operators, and hosting two performance jet teams during the 2017 Memphis Airshow. Additionally affecting operating revenue is the pass through of electric utility costs associated with the lease of Hangar N-7. Due to a single primary meter serving the entire airfield, use associated with Hangar N-7 is sub-metered and billed to the tenant as a reimbursement and is collections are reported as operating revenue. The number of airport tenants remained steady during the fiscal year.

During 2017, the Authority had non-operating revenue of \$275,681. Non-operating revenues primarily consist of capital grant revenue. Non-operating revenue remained consistent with the previous fiscal year.

Fiscal Year 2017 Authority Operating Revenues

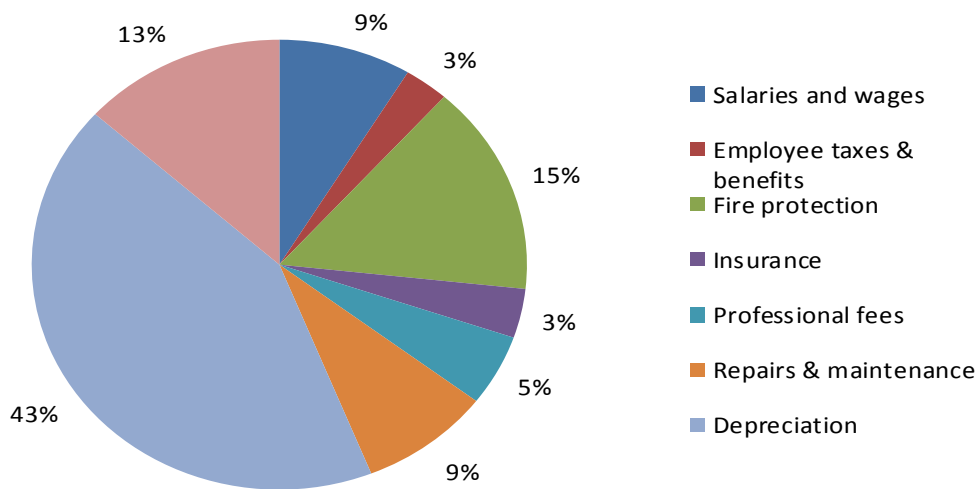


MILLINGTON AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2017

Operating Expenses

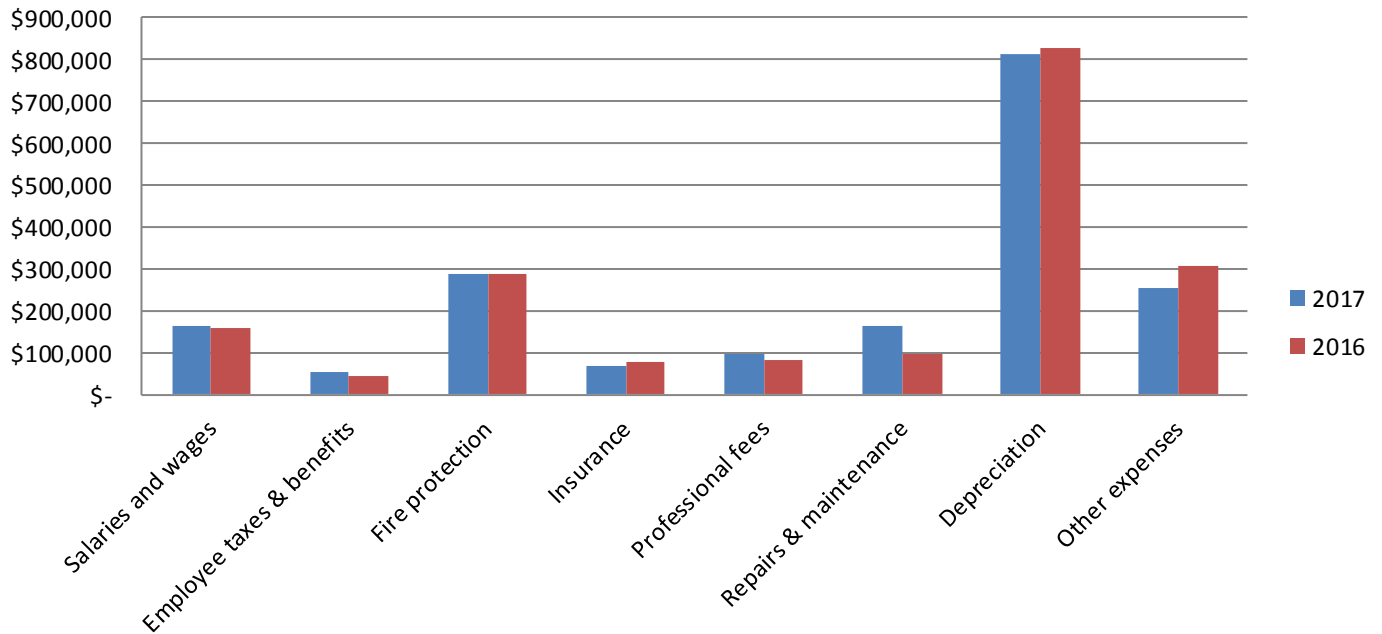
Operating expenses of the Authority increased slightly to \$1,908,769 for FY 2017 compared with \$1,891,575 for FY 2016, primarily due to increased building maintenance cost associated with replacement of commercial chilled-water units at buildings N-798 and N-7.

Fiscal Year 2017 Authority Operating Expenses



MILLINGTON AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2017

Fiscal Year 2017 v. Fiscal Year 2016 Operating Expenses



MILLINGTON AIRPORT AUTHORITY

STATEMENTS OF NET POSITION

June 30, 2017 and 2016

	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,026,160	\$ 607,657
Certificates of deposit	164,707	163,992
Receivables		
Grants	7,045	220,554
Grant advances	23,369	35,012
Rent	36,595	17,085
Interest	193	221
Prepaid expenses	23,774	34,693
Total current assets	<u>1,281,843</u>	<u>1,079,214</u>
Capital Assets		
Capital assets, not being depreciated	3,087,852	3,028,269
Capital assets, being depreciated, net	<u>15,383,989</u>	<u>15,861,900</u>
Total capital assets, net	<u>18,471,841</u>	<u>18,890,169</u>
Total assets	19,753,684	19,969,383
LIABILITIES		
Current Liabilities		
Accounts payable	32,609	25,447
Unearned revenue	1,590	1,590
Accrued salaries	19,751	33,738
Deposits from tenants	<u>14,000</u>	<u>13,670</u>
Total current liabilities	<u>67,950</u>	<u>74,445</u>
NET POSITION		
Net investment in capital assets	18,471,841	18,890,169
Unrestricted	<u>1,213,893</u>	<u>1,004,769</u>
Total net position	<u>\$ 19,685,734</u>	<u>\$ 19,894,938</u>

The accompanying notes are an integral part of the financial statements.

MILLINGTON AIRPORT AUTHORITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

For the Years Ended June 30, 2017 and 2016

	2017	2016
OPERATING REVENUES		
Rental income	\$ 1,287,569	\$ 1,271,519
Fees, net	135,450	125,672
Other	865	7,300
Total operating revenues	<u>1,423,884</u>	<u>1,404,491</u>
OPERATING EXPENSES		
Advertising	6,058	5,439
Depreciation	815,335	829,236
Employee benefits	55,449	50,601
Fire protection	288,972	290,451
Fuel and oil	6,268	6,300
Insurance	67,400	80,435
Office supplies and miscellaneous	9,102	8,625
Professional fees	97,460	84,938
Repairs and maintenance	163,817	97,664
Salaries and wages	165,773	160,424
Telephone	11,547	7,557
Tower operations	132,642	193,163
Training	9,832	7,571
Utilities	79,114	73,469
Total operating expenses	<u>1,908,769</u>	<u>1,895,873</u>
OPERATING LOSS	(484,885)	(491,382)
NONOPERATING REVENUES		
Interest income	1,133	1,066
Gain on sale of property and equipment	30	-
Capital grants	274,518	273,370
Nonoperating revenues, net	<u>275,681</u>	<u>274,436</u>
CHANGE IN NET POSITION	(209,204)	(216,946)
NET POSITION - beginning of year	<u>19,894,938</u>	<u>20,111,884</u>
NET POSITION - end of year	<u><u>\$ 19,685,734</u></u>	<u><u>\$ 19,894,938</u></u>

The accompanying notes are an integral part of the financial statements.

MILLINGTON AIRPORT AUTHORITY

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2017 and 2016

	2017	2016
OPERATING ACTIVITIES		
Cash received from customers	\$ 1,404,704	\$ 1,472,231
Cash paid to suppliers	(854,131)	(1,038,097)
Cash paid for personnel costs	(235,209)	(191,656)
Net cash flows from operating activities	<u>315,364</u>	<u>242,478</u>
CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sale of property and equipment	30	-
Grants received, net of prepayments	499,670	147,746
Capital expenditures	(397,007)	(240,091)
Net cash flows from capital and related financing activities	<u>102,693</u>	<u>(92,345)</u>
INVESTING ACTIVITIES		
Interest received	1,161	1,084
Purchase of certificates of deposit	(715)	(819)
Net cash flows from investing activities	<u>446</u>	<u>265</u>
NET CHANGE IN CASH	418,503	150,398
CASH - beginning of year	<u>607,657</u>	<u>457,259</u>
CASH - end of year	<u><u>\$ 1,026,160</u></u>	<u><u>\$ 607,657</u></u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating loss	\$ (484,885)	\$ (491,382)
Depreciation	815,335	829,236
Changes in Operating Assets and Liabilities:		
Receivables from tenants	(19,510)	71,626
Prepaid expenses	10,919	(1,775)
Accounts payable	7,162	(180,710)
Unearned revenue	-	(5,086)
Accrued salaries	(13,987)	19,369
Deposits from tenants	330	1,200
	<u><u>\$ 315,364</u></u>	<u><u>\$ 242,478</u></u>

The accompanying notes are an integral part of the financial statements.

MILLINGTON AIRPORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations

The Millington Airport Authority (the “Authority”) is a body politic and corporate of the State of Tennessee, created in 1992. It is governed by an 11-member Board of Commissioners (the Board) who are appointed by the Mayor and Aldermen of the City of Millington, Tennessee. The Authority was created pursuant to the provisions of the Airport Authorities Act, T.C.A. Section 42-3-101, et seq., for the purpose of constructing, owning, leasing, managing, and/or operating one or more airport facilities for the City of Millington. The Authority is considered to be a separate entity for financial reporting purposes and is not a component unit of the City of Millington, Tennessee.

Measurement Focus, Basis, and Method of Accounting

The Authority is accounted for as a proprietary fund. Proprietary fund financial statements include a Statement of Net Position, a Statement of Revenues, Expenses, and Changes in Net Position, and a Statement of Cash Flows. Proprietary funds are accounted for using the economic resources measurement and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Position. The Statement of Revenues, Expenses, and Changes in Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues in the proprietary fund are those revenues that are generated from the principle ongoing operations of the Authority. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the Authority, and include administrative expenses and depreciation on capital assets. All other expenses are reported as non-operating expenses.

When expenditures are incurred for purposes for which both restricted and unrestricted amounts are available, the Authority’s policy is to consider restricted amounts to have been reduced first.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Revenues and Expenses

Revenues and expenses are distinguished between operating and nonoperating items. Operating revenues generally result from providing services in connection with the Authority's principal ongoing purpose. The principal operating revenues of the Authority are terminal and box hanger rental income, fuel flowage fees, utilities, and maintenance. Operating expenses include costs associated with the leases, administrative expenses, and depreciation. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses. Revenues and expenses are recognized when earned and incurred.

Grants

The Authority is the recipient of cost reimbursement federal and state grants for further development of a public airport under Tennessee Code Annotated 42-2-203 and the Airport and Airway Improvement Act of 1982, Title 49 to the United States Code. The Authority recognized related revenue of \$274,518 and \$273,370 for the years ended June 30, 2017 and 2016, respectively. The Authority pays a matching portion on some of its reimbursement grants. Any amounts paid in advance are reflected as grant advances. As of June 30, 2017 and 2016, grant advances for matching portions totaled \$23,369 and \$35,012, respectively.

Cash and Cash Equivalents

For statement of cash flow purposes, the Authority considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash and cash equivalents.

Receivables

Receivables include amounts due under grants from the Tennessee Department of Transportation, Federal Aviation Administration, and amounts due from tenants. Management maintains allowances for potential credit losses based upon factors surrounding the credit risk of specific tenants, historical trends, and other information. All accounts or portions thereof considered uncollectible or to require excessive collection costs are written off to the allowance for doubtful accounts. Management has determined an allowance for doubtful accounts is not necessary as of June 30, 2017 and 2016. The Authority collects a deposit from tenants as collateral on rental contracts.

Capital Assets

Capital assets are stated at acquisition cost, if purchased, and estimated fair value at the date of the contribution, if contributed. Expenditures for additions, major renewals, and betterments greater than \$2,500 are capitalized. Major renewals and betterments that extend the useful lives of the assets are also recorded at cost. Expenditures for normal repair and maintenance are expensed as they occur. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from 5 to 40 years.

Infrastructure assets are capitalized when purchased or received. Infrastructure assets include runway and improvements and are reported at historical cost or at fair value at the date of donation.

On December 22, 1999, the Department of the Navy conveyed to the Authority, at no cost, 550.87 acres of base closure property, improvements and personal property by quit claim deed. The property transferred by the deed is restricted to use for public airport purposes, and was recognized at its fair value of \$11,167,844. No impairment loss was recognized for the years ended June 30, 2017 and 2016.

Net Position

Net position may be displayed in three components:

- a. Invested in capital assets – consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by outstanding balances of any notes payable that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net position – consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions enabling legislation. There were no restrictions on net position for the year ended June 30, 2017.
- c. Unrestricted net position – any other net position that does not meet the definition of “restricted” or “invested in capital assets”.

Income Tax Exemption

The Authority is exempt from federal income tax under Section 115 of the Internal Revenue Code, and therefore, no allowance for federal income taxes is included in the financial statements.

NOTE 2 – CASH AND CASH EQUIVALENTS AND INVESTMENTS

Statutes authorize the Authority to invest in obligations of the United States Treasury, obligations guaranteed as to principal and interest by the United States or any of its agencies, certificates of deposit at Tennessee state chartered banks, savings and loan associations, federal chartered banks, savings and loan associations, repurchase agreements utilizing obligations of the United States or its agencies as the underlying securities, banker's acceptances meeting specific rating criteria, commercial paper meeting specific rating criteria, and the state pooled investment fund.

Statutes also require that securities underlying repurchase agreements must have a market value at least equal to the amount of funds invested in the repurchase transaction.

The Authority's deposits are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the State. The FDIC insures the first \$250,000 of the Authority's deposits at each financial institution. Deposit balances over \$250,000 are insured by the collateral pool. State statutes provide for additional amounts to be assessed on a pro rata basis to financial institutions in the collateral pool in the event that the pool's funds would be insufficient to cover a loss.

GAAP establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy under GAAP are described below:

- Level 1 – Unadjusted quoted prices in active markets for identical assets and liabilities the Authority has the ability to access.
- Level 2 – Inputs (other than quoted prices within Level 1) such as quoted prices for similar assets or liabilities, quoted prices in inactive markets, or other inputs that can be corroborated by observable market data.
- Level 3 – Inputs which are unobservable for the asset or liability and rely on management's own assumptions that market participants would use in pricing the asset or liability.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. In determining fair value, the Authority utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2017.

For the Authority, Level 2 investments are valued based on the investment's relationship to benchmark quoted prices.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future values. Furthermore, while the Authority believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The Authority's assets at fair value as of June 30, 2017 and 2016 were certificates of deposit of \$164,707 and \$163,992, respectively, and were all Level 2 investments.

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2017 and 2016 is as follows:

	June 30, 2016	Increases	Decreases	June 30, 2017
Capital Assets, Not Being Depreciated:				
Land	\$ 2,989,177	\$ 5,233	\$ -	\$ 2,994,410
Construction in progress	39,092	303,034	248,684	93,442
Total capital assets not being depreciated	3,028,269	308,267	248,684	3,087,852
Capital Assets, Being Depreciated:				
Buildings and improvements	9,588,024	-	-	9,588,024
Land improvements	323,574	-	-	323,574
T Hangars	4,051,162	-	-	4,051,162
Runway and improvements	10,074,867	241,173	-	10,316,040
Equipment	1,265,680	96,251	-	1,361,931
Vehicles	374,448	-	-	374,448
Total capital assets being depreciated	25,677,755	337,424	-	26,015,179
Less Accumulated Depreciation for:				
Buildings and improvements	(3,024,843)	(251,022)	-	(3,275,865)
Land improvements	(109,752)	(16,239)	-	(125,991)
T Hangars	(1,250,315)	(130,308)	-	(1,380,623)
Runway and improvements	(4,398,212)	(342,056)	-	(4,740,268)
Equipment	(777,080)	(58,521)	-	(835,601)
Vehicles	(255,653)	(17,189)	-	(272,842)
Total accumulated depreciation	(9,815,855)	(815,335)	-	(10,631,190)
Total capital assets being depreciated, net	15,861,900	(477,911)	-	15,383,989
Total capital assets, net	\$ 18,890,169	\$ (169,644)	\$ 248,684	\$ 18,471,841

	June 30, 2015	Increases	Decreases	June 30, 2016
Capital Assets, Not Being Depreciated:				
Land	\$ 2,815,824	\$ 173,353	\$ -	\$ 2,989,177
Construction in progress	23,449	15,643	-	39,092
Total capital assets not being depreciated	2,839,273	188,996	-	3,028,269
Capital Assets, Being Depreciated:				
Buildings and improvements	9,570,976	17,048	-	9,588,024
Land improvements	323,574	-	-	323,574
T Hangars	4,051,162	-	-	4,051,162
Runway and improvements	10,074,867	-	-	10,074,867
Equipment	1,233,633	32,047	-	1,265,680
Vehicles	372,448	2,000	-	374,448
Total capital assets being depreciated	25,626,660	51,095	-	25,677,755
Less Accumulated Depreciation for:				
Buildings and improvements	(2,773,943)	(250,900)	-	(3,024,843)
Land improvements	(78,378)	(31,374)	-	(109,752)
T Hangars	(1,120,007)	(130,308)	-	(1,250,315)
Runway and improvements	(4,059,727)	(338,485)	-	(4,398,212)
Equipment	(716,264)	(60,816)	-	(777,080)
Vehicles	(238,300)	(17,353)	-	(255,653)
Total accumulated depreciation	(8,986,619)	(829,236)	-	(9,815,855)
Total capital assets being depreciated, net	16,640,041	(778,141)	-	15,861,900
Total capital assets, net	\$ 19,479,314	\$ (589,145)	\$ -	\$ 18,890,169

NOTE 4 – POSTRETIREMENT BENEFITS

Beginning July 1, 2015, the Authority ended its employment relationship with the City of Millington. Prior to July 1, 2015, all Authority employees were employees of the City of Millington. The Authority reimbursed the City of Millington for payroll and benefit costs as part of this arrangement. Commencing on July 1, 2015, the Authority began paying payroll and benefits directly. As employees of the City of Millington, the Authority's eligible employees participated in the Tennessee Consolidated Retirement System through the City of Millington. As part of the transfer arrangement, the Authority, the City of Millington, and the Tennessee Consolidated Retirement System agreed to allow all eligible Authority employees to continue participating in the Tennessee Consolidated Retirement System through the City of Millington until September 30, 2016. As of October 1, 2016, the Authority and its employees began participating in the Tennessee Consolidated Retirement System directly under the Authority's account.

NOTE 5 – LEASE AND USE OF AIRPORT FACILITIES

The Authority leases terminal space, hangars, and buildings to tenants on a fixed-fee basis, plus applicable utilities. As of June 30, 2017 and 2016, the Authority leased buildings with a cost of \$9,588,024 with accumulated depreciation of \$3,275,865 and \$3,024,843, respectively. As of June 30, 2017 and 2016, the Authority leased hangars with a cost of \$4,051,162 with accumulated depreciation of \$1,380,623 and \$1,250,315, respectively.

Minimum future rents expected to be received under noncancelable operating leases are as follows for the years ending June 30:

2018	\$ 154,553
2019	89,282
2020	79,111
2021	79,111
2022	79,111
Thereafter	230,741
	<u>\$ 711,909</u>

NOTE 6 – CONCENTRATIONS

During the years ended June 30, 2017 and 2016, one customer comprised 58% and 59%, respectively, of all fee and rental income. During the year ended June 30, 2017, two customers comprised 80% of tenant and fee receivables. For the year ended June 30, 2016, one customer comprised 52% of tenant and fee receivables.

As of and for the years ended June 30, 2017 and 2016, one grantor comprised 100% of both grants receivable and capital grant revenue.

NOTE 7 – COMMITMENTS

The Authority is the recipient of reimbursement grants for improvements of its facilities. Amounts received under federal and state grants for specific purposes are subject to review and audit by grantor agencies. Such audits could result in reimbursements to the grantor agencies for expenditures disallowed under the terms of the grants. Authority management is not aware of any potential losses from such disallowances.

NOTE 8 – RELATED PARTY TRANSACTIONS

The City of Millington provided staffing and related benefits and fire protection for the operation of the Authority for the year ended June 30, 2015, totaling \$632,400. As discussed in Note 4 above, the City of Millington ceased providing staffing and many employment-related benefits and fire protection as of July 1, 2016; however, the City of Millington continued to provide postretirement benefits to Authority employees until October 1, 2016.

MILLINGTON AIRPORT AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

For the Year Ended June 30, 2017

<u>Grantor/Pass-through Grantor</u>	<u>CFDA #</u>	<u>TAD Project Number</u>	<u>Contract Number</u>	<u>Expenditures</u>
<u>Federal Awards</u>				
US Dept of Transportation/TN Dept of Transportation				
Airport Improvement Program	20.106	79-555-0140-04	AERO-14-184-00	\$ 15,466
Airport Improvement Program	20.106	79-555-0149-04	AERO-15-148-00	1,217
Airport Improvement Program	20.106	79-555-0151-16	AERO-16-216-00	<u>36,271</u>
TOTAL FEDERAL AWARDS				52,954
<u>State Financial Assistance</u>				
TN Department of Transportation	N/A	79-555-0140-04	AERO-14-184-00	859
TN Department of Transportation	N/A	79-555-0149-04	AERO-15-148-00	68
TN Department of Transportation	N/A	79-555-0151-16	AERO-16-216-00	12,225
TN Department of Transportation	N/A	79-555-0748-04	AERO-15-147-00	182,672
TN Department of Transportation	N/A	79-555-1650-04	AERM-16-142-00	<u>25,740</u>
TOTAL FEDERAL AND STATE AWARDS				<u>\$ 274,518</u>

NOTES TO THE SCHEDULE

NOTE A – BASIS OF PRESENTATION

The schedule of expenditures of federal and state awards (the "Schedule") includes the federal and state grant activity of the Authority and is presented on the accrual basis of accounting. The information in the Schedule is presented in accordance with the requirements of the State of Tennessee Department of Audit *Audit Manual*. Therefore, some amounts in the Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- 1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in either OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, or Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"), as applicable, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- 2) Pass-through entity contract numbers are presented where available.
- 3) There were no federal awards passed through to subrecipients.
- 4) The Authority has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Board of Commissioners
Millington Airport Authority
Millington, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Millington Airport Authority (the "Authority") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 17, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention to those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Watkins Wilkerson, PLLC". The signature is written in a cursive, flowing style.

Memphis, Tennessee
October 17, 2017

MILLINGTON AIRPORT AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2017

None.

MILLINGTON AIRPORT AUTHORITY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2017

None.